

Birmingham Airport Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2020



Registration number: 02078273

Birmingham Airport Limited

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Birmingham Airport Limited Company Information

Chairman	T Clarke
Chief Executive	N Barton
Directors	N Barton T Clarke S L C Richards
Company Secretary	F Penhallurick
Registered office	Diamond House Birmingham Airport Birmingham West Midlands B26 3QJ
Solicitors	Eversheds LLP 115 Colmore Row Birmingham West Midlands B3 3AL
Independent Auditors	PricewaterhouseCoopers LLP Chartered accountants and statutory auditors One Chamberlain Square Birmingham West Midlands B3 3AX
Bankers	National Westminster Bank plc 2 St Phillips Place Birmingham West Midlands B3 3RB

Birmingham Airport Limited Strategic Report for the Year Ended 31 March 2020

The Directors present their strategic report for the year ended 31 March 2020.

Principal activity

The principal activity of the company is the operation and management of Birmingham Airport "the Airport" and the provision of facilities and services associated with those operations. The key operating objectives of the company can be summarised as follows:

The safe and secure processing of passengers and aircraft through the provision of facilities and infrastructure in a sustainable and efficient manner. We aim to provide a value-for-money service, recognising the efforts of our employees and our partners, which will generate a profitable future for the company. We also recognise the wider impacts of our business and aim to mitigate the impacts of our operations on the local community, whilst assisting the region to develop and grow through improved connectivity.

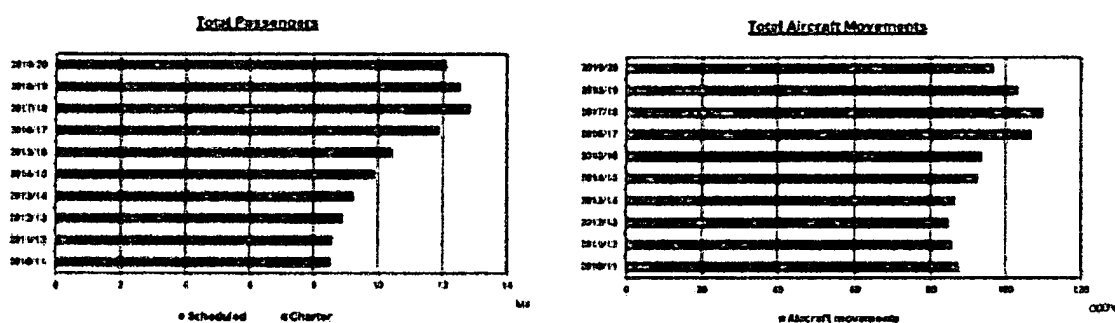
The Airport is a key economic accelerator for the Midlands region, providing the air connectivity vital for international trade, investment and employment, the growth of inbound tourism, and access to outbound leisure destinations. 7,000 people are directly employed by companies located within the Airport boundary and a further 9,900 people are employed indirectly to supply goods and services to the Airport. The Airport's net economic impact including catalytic effects in the region is estimated as £1.5 billion GVA (Gross Value Added) and 30,900 jobs.

Market position and business environment

Review of the business and future outlook

During the year, the Airport processed 12,120,236 passengers, a decrease of 3.3% on 2018/19 (12,533,727). The fall in passenger numbers was principally driven by a significant drop off in passengers in March 2020 as a result of Covid-19. In the 11 months prior to March, passenger numbers had increased 0.9% on 2018/19. The full year decline was driven by a 14.2% reduction in Charter passengers following the insolvency of Thomas Cook in September 2019, partially offset by a 1.5% growth in Low Cost passengers. The Airport was marginally ahead of the UK aviation market which saw a decrease for the same period of 3.4%.

Prior to Covid-19, the Airport grew 2.4% during the first half of the year and made substantial progress in the second half of the year to replace the passengers lost following the insolvency of Thomas Cook in September 2019, principally through Jet2 and TUI. However, Flybe went into Administration on 5 March and the UK Government advised against all foreign travel on 17th March 2020, resulting in a significant number of flight cancellations and reduced passenger numbers and leading to a full year decline against 2018/19. The most popular destination remains Dublin, followed by Dubai and Amsterdam.



Birmingham Airport Limited Strategic Report for the Year Ended 31 March 2020 (continued)

Looking forward to 2020/21 we are forecasting a challenging year in light of the uncertainty created due to the Covid-19 pandemic for both the Airport and the Airlines operating within the Airport.

The priority throughout this pandemic is to ensure the business is able to maintain liquidity levels sufficient to support the Airport into the future, whilst ensuring we keep the Airport primed to return to full capacity as soon as travel restrictions are lifted.

A number of measures have been taken to preserve cash levels, including reduced runway operating hours, delaying the capital expansion programme, halting dividend payments and utilising the support offered by the Government through the Coronavirus Job Retention Scheme. It remains our intention to maintain a core level of operations, particularly to continue to support the Midlands region. The Airport also had a significant role in supporting the repatriation of both UK and International citizens.

Whilst the duration and impact of this pandemic is still unknown, we remain confident that at some point the pandemic will pass and the Airport will once again return to the levels of growth we have seen in previous years to create a successful long term future for the Airport.

Future developments

Birmingham Airport is the preferred national and international aviation hub for the Midlands and our ambition is to build on this to become one of Europe's leading regional airports, acting as a key economic accelerator, delivering great service to passengers, and helping to showcase the region at the upcoming Coventry City of Culture in 2021 and Birmingham Commonwealth Games in 2022.

We understand that the significant social and economic benefits created by the Airport must be balanced with a sustainable operation. We take very seriously our responsibility to manage our impact on the environment and involve our local communities in the development of our significant projects through the Airport Consultative Committee, which includes resident associations and parish councils.

Our Master Plan, published in 2019, sets out £500 million of investment over the next 15 years to modernise and extend our facilities so they are fit for the future. The key elements of this investment are to expand and modernise our departure lounge, enlarge our passenger security search area and equip it with the latest x-ray equipment, introduce further self-service bag-drop technology at check-in, increase capacity in our baggage make-up hall and install additional arrivals baggage carousels.

Whilst we are still planning to carry out this investment, the impact of the Covid-19 pandemic on our passenger volume means that the investment programme will be re-appraised once the timing and rate of recovery in passenger volume becomes clear.

We published our Sustainability Strategy in November 2019 which set out the airport's commitment to become a net zero carbon airport by the year 2033, prioritising zero carbon airport operations and minimising carbon offsets. Recognising that climate change is happening, we saw the need to set an ambitious target ahead of the UK's target, to reduce its carbon footprint further and quicker.

In addition to climate change mitigation, the strategy focuses on our priorities to reduce its other environmental impacts and make improvements in areas, such as local air quality, waste, supply chain and the circular economy, water and biodiversity.

Financial Performance

Income

The Airport earns its income from two key revenue streams, Aeronautical and Commercial. Aeronautical income is generated by charges levied on airlines for the use of airport facilities by both aircraft and passengers. Commercial income is generated from Commercial activities including duty free, car parking, catering, property rental and recharges.

Aeronautical income declined by 3.5% during 2019/20 including release of prior year provisions, with underlying income falling 1.6%. Income fell by more than passenger volume principally due to airline mix, with average Aeronautical yield per passenger declining by 0.2% to £5.21 (underlying £5.04) compared with £5.22 for the previous year.

Birmingham Airport Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

Commercial income declined by 1.6%, but was 1.7% ahead of the decline in passenger volume. The car parking market remains highly competitive, with continuing price sensitivity in consumer behaviour and passengers maximising the use of the free drop off zone created in 2018, however passengers are taking advantage of the Airport's wide range of parking options across the estate. The food and beverage and retail estate at the Airport all traded ahead of the passenger decline, principally due to a full year benefit of the two new executive lounges opened in July and October 2018; the first airside M&S Food-to-Go store in the UK, together with Arrow Cars commencing operation as our first pre-bookable private hire operator.

Other increases in Commercial income came from a full year of carrying out hold baggage screening (HBS) labour services previously carried out by airlines, an insurance claim receipt for flood damage, increased charges for Passengers with Reduced Mobility (PRM) to drive improved service and equipment, and increased operation of our in-house aircraft refuelling facility, along with the first full year of our goods inwards Consolidation Centre.

Operating costs

Total operating costs before exceptional items increased by 4.5% to £114.5 million (2019: £109.5 million). Within this, employee costs increased by 0.8% due to salary increases and a targeted increase in staffing levels on key customer-facing processes to meet passenger demand and improve customer service levels, partially offset by no employee bonus being payable as a result of the financial impact of the Coronavirus pandemic. Non-staff costs increased by 5.3%, principally due to increased expenditure from flood remediation work (which has been recovered through an insurance claim), a full year of in-sourcing of the hold baggage screening (HBS) labour contract, increasing PRM equipment and service levels, and aviation marketing. This was partly offset by lower Energy costs as a result of favourable pricing.

Depreciation increased 3.6% as a result of our capital programme. A doubtful debt provision was also made following the administration of Flybe and concerns over other operators at the Airport due to the pandemic.

One of our key performance indicators is Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA), which fell by 5.2% to £72.7m (2019: £76.7m), reflecting income decline principally driven by a significant drop off in passengers in March 2020 as a result of Covid-19, coupled with higher non-staff costs.

The company's operating profit, before exceptional items, reduced by 11.9% to £45.1 million (2019: £51.2 million), with the income decline exacerbated by higher operating costs and depreciation as well as an investment property fair value loss compared with a gain in the prior year.

The exceptional charge of £0.1 million (2019: £2.0 million) includes a charge for restructure costs. This resulted in a company operating profit, post exceptional items, of £39.9 million (2019: £43.2 million).

The company's net interest cost decreased by £1.1 million to £5.5 million (2019: £6.6 million) as a result of lower inter-company interest charges.

The tax charge for the year was £9.4 million (2019: £8.3 million), including a corporation tax charge of £9.4 million (2019: £9.2 million) and a deferred tax charge of £0.01 million (2019: £0.9 million credit). This equates to an effective tax rate of 23.5% (2019: 19.1%) which is higher than the ordinary rate of UK corporation tax, reflecting the past ineligibility of industrial buildings for tax allowances.

During the year, a final dividend was paid of £16.5 million for the year ended 31 March 2019 (2019: £17.0 million) and an interim dividend of £15.1 million was paid for the year ended 31 March 2020 (2019: £14.3 million). This resulted in a total dividend of £31.6 million (2019: £31.3 million).

The directors recommend that no final dividend payment be made in respect of the financial year ended 31 March 2020 due to the uncertainty facing the Airport as a result of the Coronavirus pandemic.

Security

Whilst the UK threat level was downgraded in November 2019 from Severe to Substantial, work continued within the Security department to ensure our site remains safe and secure in the context of the current threat environment.

We work very closely with the Department for Transport, the Civil Aviation Authority, West Midlands Police, Border Force, the Centre for the Protection of National Infrastructure and other agencies to continuously improve our Security Excellence Culture, focussing on personnel, equipment and processes to maintain high security standards and proactively address emerging security threats.

Our security procedures are subject to rigorous internal and external audits by regulators and internal teams, to regularly test their effectiveness and identify opportunities for improvement. An accreditation was received from the CAA in recognition of our effective Security Programme and its internal quality assurance.

Birmingham Airport Limited Strategic Report for the Year Ended 31 March 2020 (continued)

There was a focus on Continuous Improvement during the year, with several initiatives contributing to the overall achievement of all departmental KPIs. Further improvement work included the commencement of a review of the Operating Model within the Terminal Operations function and the full review of the Hold Baggage Screening and Airfield Security provision to ensure best value was being extracted.

Our IT system security, particularly the security of our customer data, is extremely important to us. We have extensive defences within our IT and network infrastructure and continuously review and upgrade our network to the latest security standards. During the year we have continued to build on our compliance with the General Data Protection Regulations (GDPR), adding measures to ensure compliance is robust and embedded into the culture of Birmingham Airport.

Health and Safety

Birmingham Airport is committed to providing a safe and secure workplace and operational environment for all who use the Airport. Our Occupational Health and Safety Management System is being developed in order to transition from OHSAS 18001 to the new ISO 45001 standard, with a target of achieving certification in Spring 2021.

Under our 'Safety Culture Excellence' vision statement we have delivered on our key Health, Safety and Fire objectives which included the implementation of a near-miss reporting app reducing the number of passenger incidents associated with the use of escalators. These successes have resulted in us being short-listed as finalists at the prestigious Safety and Health Excellence (SHE) awards in the categories of Project of the year and Health and Safety Team of the year. The awards are due to take place in September 2020.

There were 117 staff accidents during the year (2018/19: 105). The accident frequency rate was 7.20 accidents per 100,000 hours worked (2018/19: 6.61). The lost time injury frequency rate for the year was 0.80 lost time accidents per 100,000 hours worked (2018/19: 0.57). It is likely that the increase in accidents is down to an ongoing campaign aimed to encourage more reporting as well as an open-door policy in regards to safety concerns.

To accelerate the development of an even stronger safety culture a Control of Contractors office (CoCo) was established in the Autumn of 2019. The purpose of CoCo is to manage the Permission to Work Process for all construction activities which take place at the Airport. This requires contractors to demonstrate adequate skills, knowledge and experience prior to undertaking works.

Greenhouse Gas Emissions, Energy Consumption and Energy Efficiency Action

Information on greenhouse gas emissions, energy consumption and energy efficiency actions for Birmingham Airport Limited is reported by the group and can be found within the Birmingham Airport Holdings accounts.

Statement by the Directors on performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of Birmingham Airport Limited have acted in a way they consider to be most likely to promote the success of the company for the benefit of its members as a whole in the decisions taken during the year ended 31 March 2020.

(i) the likely consequences of any decision in the long term,

The Airport's Master Plan, published in 2019, sets out our strategy for the Airport over the next 15 years within the context of the Midlands region. This important strategic document guides our internal decision-making and how we work with our many stakeholders to balance sometimes competing priorities and find mutually acceptable ways forward.

(ii) the interests of the company's employees,

Our employees are fundamental to the delivery of our Master Plan and our day-to-day operations. The Health and Safety of our employees is our number one priority, supported by our dedicated Health and Safety team. Employee development is also a key factor and we have launched a number of training initiatives to support our employees through their development. In addition we carry out annual employee surveys, with increasing participation levels, which have led to a number of other initiatives to further improve our employee experience going forward.

Birmingham Airport Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

(iii) the need to foster the company's business relationships with suppliers, customers and others,

We know that a great customer experience is not only about our facilities but also how our staff operate every day to consistently deliver a great service. During the year, we carried out a number of customer focussed upgrades to the terminal facilities and increased staffing levels and training, all with the aim of delivering the service our passengers expect. A primary focus has been on reduced queuing times and our Airport benchmarks well against our competitors, particularly for the helpfulness of our staff and those of our Airport partners.

We work closely with the business community across the region, including major corporates, the Chambers of Commerce and travel management companies, to understand their plans and make sure we are meeting their demand for additional destinations and frequency of service. We carry out extensive analysis of the destinations flown to by residents in our catchment area but departing from other UK airports, using this to inform our future aviation strategy.

We have strong relationships with a wide range of airlines from each of the three leading airline alliances (Star Alliance, Oneworld & SkyTeam) serving domestic, short-haul and long-haul markets. We provide a diverse and balanced choice of scheduled, low cost and charter flights. Our aviation development team are ambassadors for the region, constantly engaged with existing airline partners and with potential new carriers to Birmingham, raising their awareness of the Midlands and focussing their attention on the opportunities to fulfil route demand from our region.

We consider our supply chain as critical to enabling the Airport to achieve its objectives. The Procurement Strategy seeks to segment our supply chain by criticality and level of expenditure so that procurement activities can be focused on delivering best practice supply chain solutions which represent value for money, are innovative and have an emphasis on sustainability and health and safety and deliver outcomes which meet our requirements. Through the delivery of effective procurement, there is also a commitment to engaging with local small and medium enterprises with a recognition of the need to be socially responsible.

(iv) the impact of the company's operations on the community and the environment,

We take our community responsibilities seriously and work closely with local residents, who are represented on our Airport Consultative Committee, on a wide range of projects and initiatives. The Airport makes annual contributions to a Community Trust Fund, and its independent trustees allocate the funds to worthwhile causes in the areas surrounding the Airport. We also have a partnership with Solihull Council on the Youth Promise Plus Programme and operate a Learning Hub in partnership with the Schools of King Edward VI, supporting young people in gaining valuable experience of the aviation industry.

We also take our environmental responsibilities very seriously across all areas such as noise, carbon reduction, water and waste.

Managing noise is our top priority and we have implemented a comprehensive Noise Action Plan to address issues of noise and track-keeping, noise monitoring and community complaints about aircraft noise. We have listened to our neighbours to understand attitudes to aircraft noise and, in partnership with community representatives, have developed a new night flying policy which is among the most stringent in the UK.

We are striving continually to become much more carbon efficient and, building on the significant reduction in carbon emissions we have already achieved, we have recently published our sustainability strategy which includes challenging targets for further reductions.

As part of this strategy we have committed to becoming a net zero carbon Airport by 2033, prioritising zero carbon Airport operations and minimising carbon offsets. A number of the proposed developments in the Master Plan will help deliver these environmental improvements.

Our strategy is to make the best use of our existing runway, in line with the Department for Transport's policy. The significant amount of investment planned for the Airport focuses on ensuring that we maximise the potential of the existing site and runway.

Birmingham Airport Limited Strategic Report for the Year Ended 31 March 2020 (continued)

(v) the desirability of the company maintaining a reputation for high standards of business conduct, and

The Airport is a public-private partnership that has a high profile and generates significant public interest, particularly in the Midlands region. This makes it particularly important the standards of business conduct are maintained at a high standard. This is achieved through a suite of company policies which are regularly reviewed and subject to internal audit reporting to the Audit Committee.

(vi) the need to act fairly as between members of the company.

The relationship between the Company and its members is primarily guided by a Shareholder Agreement and trust deeds governing the employee share scheme. The limited number of members also enables each to be represented on the Board of Directors.

Financial risk management

Objectives and policies

The company has a number of policies in place to manage its financial risks, along with a risk management programme which is reported to the Board and Audit Committee. Where actions are necessary and not covered by the policies in place, approval is sought from the Board.

Assessment of principal risks

Interest Rate Risk

The company's policy is to maintain an appropriate mix of credit facilities within Board approved parameters. The interest costs are fixed for the long-term borrowings with the only variable being on the revolving credit facility which was fully drawn down in March 2020, this was part of the contingency planning as a result of the Covid-19 pandemic. The company has considered and is satisfied with the current debt structure.

The company's cash is invested under strict Board approved parameters, which places a cap on the amount which can be invested in a single institution. Throughout the year, cash is invested in the money market which, whilst exposing the company to interest rate risk, does maximise returns, whilst maintaining liquidity and access to funds.

Liquidity Risk

It is the company's policy to ensure continuity of funding by active management of working capital and maintaining sufficient cash or committed facilities to meet anticipated funding requirements, whilst ensuring that the company is not exposed to excessive refinancing in any one year. The £45 million committed Private Placement and £211.4 million cash balance are considered sufficient to meet the company's ongoing liquidity requirements.

Credit Risk

The company's policy requires appropriate credit checks of potential customers prior to the commencement of operation and regular reviews thereafter. In addition, focus has been directed at day to day reviews and management of this risk, due to the economic climate. The company has no significant concentration of credit risk, with exposure spread over a large number of customers.

Cost Risk

The company has no significant exposure to any single element of price risk. The largest single risk is wage inflation and the company has some influence through negotiations with its employees and in the current environment of Covid-19 agreement has been reached with employees that there is no inflationary increase in the coming year. Other exposures relate to general market inflation and building costs during periods of expansion.

Competition Risk

The key competitive risks are passengers and/or airline operators switching to other airports. These risks are mitigated by maintaining strong relationships with our airline customers and through continuous improvements targets to improve the customer experience.

Birmingham Airport Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

Covenant Risk

The company continues to comply with, and there has been no breach of, any of the financial covenants relating to net worth, gearing and interest cover which are required by the corporate bond, private placement senior notes and bank facility. These are monitored on an ongoing basis with formal testing reported to the Audit Committee and for the bond and bank facility the year end position is certified by the auditors.

A prolonged period of traffic disruption from Covid-19 could cause future covenant breach and agreement has been reached with lenders to waive these covenants at the next two testing dates of 30 September 2020 and 31 March 2021. A new testing date of 30 June 2021 has been introduced along with monthly reporting and a six month forward liquidity covenant.

Covid-19 Risk

The Covid-19 pandemic has had a devastating impact on global aviation and it is unclear how quickly the industry will recover from the crisis. By mid April the number of commercial flights globally had reduced by 75% and European passenger traffic had fallen by 96%. The economic impact of the pandemic is expected to result in declining GDP for the majority of the advanced economies in 2020.


The speed of any recovery is very uncertain, with a host of factors including travel restrictions, passenger perception of safety, consumer confidence and the general economic outlook, all likely to affect the demand for air travel. In addition, the financial impact of the crisis could result in more airline failures or contraction in airline capacity, with a number of airlines already announcing large redundancy programmes.

Brexit Risk

A Brexit impact on the UK economy, that could lead to a more challenging economic environment and a period of slower than expected passenger growth, remains a genuine threat that is overshadowed by the current Covid-19 pandemic. The Board and the management team remain very aware of the risks facing the industry and are therefore working closely with the airlines and other stakeholders to actively manage these risks.

Following the exit from the EU on 31 January 2020, the UK has entered a transition period until 31 December 2020, during which the future UK-EU relationship is determined. At this stage the future relationship with the EU remains uncertain but the UK Government has previously been clear that its aim is to ensure continued transport connectivity with the EU in support of successful economic and social ties. During the transition period there are no changes to the operation of UK flights within the EU, but at this stage it has not been confirmed how air transport will operate beyond 2020.

Approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



F Penhallurick
Company secretary

Birmingham Airport Limited Directors' Report for the Year Ended 31 March 2020

The Directors present their report and the audited financial statements of the company for the year ended 31 March 2020.

Future developments, dividends and financial risk management

The Strategic Report on pages 2 to 8 include details of the Company's financial performance, dividends, future developments, stakeholder engagement, financial risk management objectives and policies, and its greenhouse gas emissions, energy consumption and energy efficiency action.

Directors of the Company

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

N Barton - Chief Executive
T Clarke - Chairman
S L C Richards

Company Secretary

F Penhallurick

Directors liabilities

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained Directors' and Officers' liability insurance in respect of itself and its Directors throughout the financial year.

Going concern

The Group of companies to which the Company belongs has external debt facilities in the form of a £105 million corporate bond, £326 million of private placement loan notes and a bank loan of £25 million, for which the Company has cross guarantees.

The Directors have reviewed the prospects for the Group and Company to March 2022 (twenty-four months from the balance sheet date) in the context of the ongoing Covid-19 pandemic and the insolvency of Flybe in March 2020. At the balance sheet date the Group had very strong liquidity, with a cash balance of £212 million. Following the issuance of private placement notes the cash balance at 31 May 2020 had risen to £243 million. Actions taken to reduce expenditure have led to cash outflows in April and May 2020 averaging £6.8 million per month. Therefore, on a simple basis, after taking into account the maturity of the £105 million bond in February 2021, the Group has sufficient cash to operate for over 18 months from the date of signing these financial statements.

The Directors have also considered the significant uncertainties facing the Group over the next two years and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response.

In assessing the going concern position, the Directors have considered:

- the potential impact of Covid-19 on the group's cash flow and liquidity over the next 24 months, and
- the associated impact on the covenants in the Group's financing arrangements.

Due to the uncertainty over when UK and international travel restrictions will be lifted, along with the uncertainty over airlines capacity plans and passenger demand, in addition to a base case scenario of 5.9 million passengers in 2020/21 and 9.9 million passengers in 2021/22, severe but plausible scenarios assume up to 6 months of negligible activity and revenues (between April and September 2020) followed by a recovery over the following 12 months to between 55% and 85% of the annual volume up to February 2020. The lowest scenario is a prudent downside case which assumes only 14% of previous volumes in 2020/21 and 45% in 2021/22 to assess liquidity and covenants in these circumstances.

Birmingham Airport Limited

Directors' Report for the Year Ended 31 March 2020 (continued)

Going concern (continued)

The Group and its Directors have proactively reduced cash outflows in both operating and capital expenditure and have utilised the Government's Coronavirus Job Retention Scheme to fund the cost of the two-thirds of employees who have been furloughed.

The Directors have also taken steps to secure liquidity for at least the next 12 months by fully drawing the Group's £25 million revolving credit facility in March 2020 and by bringing forward the issuance of £45 million of private placement notes from December 2020 to May 2020. The maturity of the £105 million corporate bond in February 2021 is fully funded and the Group has no further maturities.

In addition, waivers on covenant compliance have been granted by lenders to avoid events of default arising from the potential failures against the leverage and interest cover tests at September 2020 and March 2021. A new testing date has been introduced for June 2021 along with a six months forward liquidity covenant, which is tested monthly.

It is the June 2021 covenant test which therefore represents the key uncertainty in the going concern assessment because compliance relies on the timing and pace of recovery in the sector. The Group forecasts to pass this covenant test under the base case scenario with 9.9 million passengers in 2021/22. The Group forecasts to retain a satisfactory cash balance but will not comply with EBITDA-based covenant ratios unless passenger volumes and revenues recover quickly enough, as forecast in the downside scenarios. If this pace of recovery is not quick enough then a combination of a further waiver and shareholder support will be required to avoid a covenant breach or alternative funding will need to be secured, which is not certain.

The Directors have kept shareholders fully informed regarding the projected finances of the Group and the risks around the lending covenants. Shareholders are fully supportive of actions taken to date and are ready to engage in further discussion should more tangible support be required in due course.

After due consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis. However, the impact of the Coronavirus pandemic on the ability of the Group to meet its covenant tests and to take corrective measures should it not be able to do so, represent material uncertainties that may cast significant doubt on the Group's and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustment that would arise if the financial statements were not drawn up on a going concern basis.

Political donations

There were no political donations during the year.

Employment of disabled persons

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. We are committed to being a Disability Confident employer. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment either in the same or an alternative position, where possible, with appropriate retraining being given if necessary.

Employee involvement

Employee contribution to our business is key to our success. The company commits to meet the investors in people standard, ensuring the skills and knowledge of all our employees are updated to meet changes in our industry. The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company. The high level of employee take-up of the All Employee Share Ownership Plan has continued this year enabling all employees to have the opportunity to share in the success of the company.

Birmingham Airport Limited
Directors' Report for the Year Ended 31 March 2020 (continued)

Independent auditors

The auditors, Pricewaterhouse Coopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved and authorised by the Board on 8 July 2020 and signed on its behalf by:


F Penhallurick
Company secretary

Birmingham Airport Limited

Statement of Directors' Responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved and authorised by the Board on 8 July 2020 and signed on its behalf by:



F Penhallurick
Company secretary

Birmingham Airport Limited

Independent auditors' report to the members of Birmingham Airport Limited

Report on the audit of the financial statements

Opinion

In our opinion, Birmingham Airport Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2020; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The Group of companies to which the Company belongs has external debt facilities in the form of a £105 million corporate bond, £326 million of private placement loan notes and a bank loan of £25 million, for which the Company has cross guarantees. The terms of the debt agreements require the Group to comply each year with various covenant tests at 30 September and 31 March. In light of the outbreak of the Covid-19 pandemic, the directors have reached agreement for covenant requirements to be waived at 30 September 2020 and 31 March 2021, with an additional testing date of 30 June 2021 being introduced. The directors of the parent company have prepared a base case forecast which indicates the Group would be able to meet its covenant tests at 30 June 2021. The directors of the Group have performed sensitivity analysis on the forecasts approved by the Board to assess the potential impact of severe but plausible downside scenarios. The Group forecasts to retain a satisfactory cash balance but will not comply with EBITDA-based covenant ratios unless passenger volumes and revenues recover quickly enough, as forecast in the downside scenarios. If this pace of recovery is not quick enough then a combination of a further waiver and shareholder support will be required to avoid a covenant breach or alternative funding will need to be secured, which is not certain. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Birmingham Airport Limited
Independent auditors' report to the members of Birmingham Airport Limited
(continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 12, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Birmingham Airport Limited
Independent auditors' report to the members of Birmingham Airport Limited
(continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



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Neil Philpott (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditor
Birmingham
10 July 2020

Birmingham Airport Limited
Income Statement for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	4	159,585	160,700
Administrative expenses		(114,494)	(109,543)
Exceptional administrative expenses	5	(105)	(1,974)
Total administrative expenses		(114,599)	(111,517)
Operating profit	6	44,986	49,183
Income from shares in group undertakings		335	669
Interest receivable and similar income	11	2,337	668
Interest payable and similar expenses	12	(7,796)	(7,289)
Profit before taxation		39,862	43,231
Tax on profit	13	(9,382)	(8,271)
Profit for the financial year		30,480	34,960

The above results were derived from continuing operations.

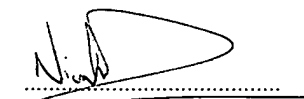
Birmingham Airport Limited
Statement of Comprehensive Income for the Year Ended 31 March 2020

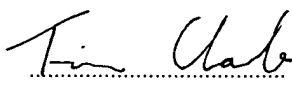
	2020	2019
	£ 000	£ 000
Profit for the financial year	30,480	34,960
(Deficit)/surplus on property, plant and equipment revaluation	(2,162)	19,467
Deferred tax on tangible assets revaluation	411	(3,309)
Deferred tax change in rate on tangible asset revaluations	(2,857)	-
Remeasurement gain/(loss) of net defined benefit pension liability	9,051	(3,633)
Deferred tax effect on actuarial gain/(loss) recognised on net defined benefit pension scheme	(1,266)	618
Other comprehensive income for the year	3,177	13,143
Total comprehensive income for the year	33,657	48,103

Birmingham Airport Limited
(Registration number: 02078273)
Statement of Financial Position as at 31 March 2020

	Note	2020 £ 000	2019 £ 000
Fixed assets			
Tangible assets	14	473,989	464,897
Investment property	15	4,275	5,320
Investments	16	15,494	15,494
		<u>493,758</u>	<u>485,711</u>
Current assets			
Inventories	17	514	522
Debtors: amounts falling due within one year	18	70,095	28,883
Debtors: amounts falling due after more than one year	18	4,845	5,533
Cash at bank and in hand		211,407	125,241
		<u>286,861</u>	<u>160,179</u>
Creditors: Amounts falling due within one year	19	<u>(452,695)</u>	<u>(312,719)</u>
Net current liabilities		<u>(165,834)</u>	<u>(152,540)</u>
Total assets less current liabilities		327,924	333,171
Creditors: Amounts falling due after more than one year	19	(34,938)	(33,936)
Provisions for liabilities	22	(28,834)	(25,110)
Post-employment benefits	23	(20,090)	(32,103)
		<u>244,062</u>	<u>242,022</u>
Net assets			
Capital and reserves			
Called up share capital	24	142	142
Revaluation reserve	25	41,341	45,228
Retained earnings		202,579	196,652
		<u>244,062</u>	<u>242,022</u>
Total equity			

The financial statements on pages 16 to 41 were approved and authorised by the Board on 8 July 2020 and signed on its behalf by:


 N Barton
 Chief Executive


 T Clarke
 Chairman

Birmingham Airport Limited
Statement of Changes in Equity for the Year Ended 31 March 2020

	Note	Called up share capital £ 000	Revaluation reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 April 2018		142	30,059	195,021	225,222
Profit for the financial year		-	-	34,960	34,960
Other comprehensive income for the year		-	16,158	(3,015)	13,143
Total comprehensive income for the year		-	16,158	31,945	48,103
Dividends	26	-	-	(31,303)	(31,303)
Transfer of realised profits		-	(989)	989	-
At 31 March 2019		142	45,228	196,652	242,022
At 1 April 2019		142	45,228	196,652	242,022
Profit for the financial year		-	-	30,480	30,480
Other comprehensive income for the year		-	(2,841)	6,018	3,177
Total comprehensive income for the year		-	(2,841)	36,498	33,657
Dividends	26	-	-	(31,617)	(31,617)
Transfer of realised profits		-	(1,046)	1,046	-
At 31 March 2020		142	41,341	202,579	244,062

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020

1 General information

The company is a private company limited by shares incorporated in the United Kingdom.

The address of its registered office is:

Diamond House
Birmingham Airport
Birmingham
West Midlands
B26 3QJ

The principal activity of the company is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', taking into account updates of the 2018 triennial review and the Companies Act 2006.

Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention modified to include the revaluation of certain assets in accordance with applicable accounting standards and the Companies Act 2006.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3 within the critical accounting judgements and estimation uncertainty section.

Summary of disclosure exemptions

FRS 102 allows a qualifying entity certain disclosure exemptions. The company has taken advantage of the following exemptions:

- the requirement to prepare a statement of cash flows (FRS 102 para 1.12(b));
- the requirement to disclose transactions with group members (FRS 102 para 33.1A);
- the non-disclosure of key management personnel compensation in total (FRS 102 para 33.7); and
- the requirement to complete a reconciliation of the number of shares outstanding at the beginning and end of the period (FRS 102 para 4.12(a)(iv)).

The company notified and did not receive any objections to the use of the above exemptions by its shareholders.

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (*continued*)

2 Accounting policies (*continued*)

Going concern

The Group of companies to which the Company belongs has external debt facilities in the form of a £105 million corporate bond, £326 million of private placement loan notes and a bank loan of £25 million, for which the Company has cross guarantees.

The Directors have reviewed the prospects for the Group and Company to March 2022 (twenty-four months from the balance sheet date) in the context of the ongoing Covid-19 pandemic and the insolvency of Flybe in March 2020. They have considered the significant uncertainties facing the Company over that period and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response, as outlined in the Directors' report on page 9. After due consideration of the matters set out above, the Directors are satisfied that it remains appropriate to prepare the financial statements on a going concern basis. However, the impact of the Coronavirus pandemic on the ability of the group to meet its covenant tests represents a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustment that would arise if the financial statements were not drawn up on a going concern basis.

Exemption from preparing group financial statements

The financial statements contain information about Birmingham Airport Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Birmingham Airport Holdings Limited, a company incorporated in England.

Revenue recognition

Turnover represents the amounts derived from the provision of services which fall within the company's activities. All turnover is generated in the United Kingdom. Turnover comprises:

Aeronautical income - sales related to aeronautical activities net of rebates, incentives and value added tax and is recognised at the point of passenger and aircraft departure.

Concession income - concession rentals net of value added tax relating to retail activities on the site. Income for car parking is recognised at the end of the parking stay and all other concession income is recognised in the period to which it relates on an accruals basis.

Property income and recharges - revenues relating to property lettings, service charges, utility recharges and usage charges for operational systems. All income is recognised in the period to which it relates on an accruals basis.

Government grants

Government grants that do not impose specified future performance-related conditions are recognised in income when the grant proceeds are received or receivable. Grants that impose specified future performance-related conditions are recognised in income only when the performance-related conditions are met.

Other grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected lives of the relevant assets by equal annual instalments.

Exceptional administrative expenses

The company classifies certain one-off charges or credits that have an impact on the company's financial results as 'exceptional items'. These are disclosed separately in note 5 to provide further understanding of the financial performance of the company.

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except where it is attributable to an item of income or expense recognised as other comprehensive income, where it is recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Current or deferred tax assets and liabilities are not discounted.

Tangible assets

Land, buildings and infrastructure are revalued and carried at their fair value at the date of valuation less any accumulated depreciation and accumulated impairment losses. Due to the specialist nature of the land, buildings and infrastructure fair value is based on an income or a depreciated replacement cost approach. The Directors have revalued certain operational assets where their fair value is based on income at 31 March 2020. An independent valuation was undertaken at 31 March 2019.

Tangible assets are revalued with sufficient regularity so as to ensure there are no significant differences between carrying and fair value. If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and the revaluation reserve. However, the increase shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. The decrease of an asset's carrying amount as a result of revaluation is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in the revaluation reserve, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in the revaluation reserve in respect of that asset, the excess shall be recognised in the income statement.

Plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses. The cost of plant and machinery includes original purchase price and directly attributable incremental costs incurred in bringing the asset to its working condition for its intended use.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial amount of time to get ready for their intended use are added to the cost of those assets. All other borrowing costs are recognised in the income statement in the period they are incurred.

Depreciation

Depreciation is provided on all tangible fixed assets, other than land and investment property, at rates calculated to write off cost or valuation, less estimated residual value of each asset evenly over its expected useful life. In addition, the carrying values of tangible fixed assets are reviewed for continued applicability in future periods if events or changes in circumstances indicate the carrying value may not be recoverable. The principal useful lives are as follows:

Asset class	Depreciation method and rate
Buildings	between 5 to 50 years
Infrastructure	between 10 to 50 years
Plant & Machinery	between 4 and 30 years
Motor Vehicles (included within Plant & Machinery)	between 4 and 15 years

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Investment property

Investment property including buildings (including off site residential properties) and parts of a building held to earn rental income are held at fair value based on rental income, where the fair value can be measured reliably without undue cost or effort. Fair value is measured at each reporting date with changes in fair value recognised in the income statement.

Investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. Investments are assessed for impairment at the end of each reporting period. If there is an indication of impairment the recoverable amount of the investment is impaired to its carrying amount. The recoverable amount of the investment is the higher of fair value less cost to sell and value in use. If the recoverable amount of the investment is lower than its carrying amount an impairment is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell.

At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the income statement.

Trade payables

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at undiscounted amount of cash or consideration expected to be paid.

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Income Statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Financial instruments

The company's financial instruments are all categorised as basic financial instruments under section 11 of FRS 102. The company has chosen not to measure the basic financial instruments at fair value through the Income Statement.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation at the reporting date as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Details of provisions are disclosed in note 22.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance costs in the Income Statement and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Rents receivable under operating leases are included in turnover on an accruals basis.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are approved by the company's shareholders.

Employee benefits

Share incentive plan

The Birmingham Airport Holdings Limited Group has a Share Incentive Plan (SIP) which is available to all permanent employees of the group companies. The All Employees Share Ownership Plan (AESOP) was set up to enable employees to have a greater involvement in the company and share in its future success, the plan has been approved by HM Revenue and Customs. Each year employees have the opportunity to join the plan and save to purchase Partnership shares in the group. For every three Partnership shares purchased the employee is given a Matching share by the Employee Share Trust. The shares are held in Trust for the employees and they are entitled to receive a dividend from Birmingham Airport Holdings Limited, if a dividend is declared, while the shares are held in Trust for the employee.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (*continued*)

2 Accounting policies (*continued*)

Defined benefit pension obligation

A defined benefit plan defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of the plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in sterling, and that have terms to maturity approximation to the terms of the related pension liability. The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'remeasurement of net defined benefit liability'.

The cost of the defined benefit plan is recognised in the income statement as employee costs and comprises, increases in the liability arising from employee service and cost of benefit changes, curtailments and settlements. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the income statement as a 'finance expense'.

3 Critical accounting judgements and estimations of uncertainty

The company makes relatively few judgements and estimates in preparing the financial statements and where the directors have had to make provisions they are reasonable and prudent. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Provisions

Provision is made for site development related liabilities and other matters as they arise. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. Details of provisions are disclosed in note 22.

(ii) Defined benefit pension scheme

The group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the pension obligation in the Statement of Financial Position. The assumptions reflect historical experience and current trends. Details of the pension scheme are disclosed in note 23.

(iii) Tangible assets

The Company's tangible fixed assets are carried at either their fair value at date of valuation or cost, less any accumulated depreciation. Management estimates the useful economic life of assets based on historical experience and professional guidance from suppliers and subject matter experts. Asset impairments are based on estimates of current and future development plans. Details of the tangible assets are disclosed in note 14.

(iv) Impairment of trade debtors

A provision for the impairment of trade debtors is established when there is objective evidence that the group or company will not be able to collect all amounts due according to the original terms of the receivables. The provision is based on historical loss experience on a probability weighted basis to quantify.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

3 Critical accounting judgements and estimations of uncertainty (continued)

(v) Customer rebates

The Company has accruals for expected rebates with customers. Such estimates are based on analyses of existing contractual obligations, historical trends and the Group experience. After assessment by management, the total accruals for these items are adequate, based upon currently available information and contractual positions. As these deductions are based on management estimates, the actual rebate costs might differ from these estimates.

(vi) Going concern

The Directors have considered the significant uncertainties facing the company over the next two years and carried out financial modelling of a range of trading scenarios along with the actions which could be taken in response, as outlined in the Directors' report on page 9. In assessing the going concern position, the Directors have considered:

- the potential impact of Covid-19 on the company's cash flow and liquidity over the next 24 months, and
- the associated impact on the covenants in the company's financing arrangements.

Due to the uncertainty over when UK and international travel restrictions will be lifted, along with the uncertainty over airlines capacity plans and passenger demand, the scenarios assume up to 6 months of negligible activity and revenues (between April and September 2020) followed by a recovery over the following 12 months to between 55% and 85% of the annual volume up to February 2020. The lowest scenario is a prudent downside case which assumes only 14% of previous volumes in 2020-21 and 45% in 2021/22 to assess liquidity and covenants in these circumstances.

4 Turnover

The analysis of the company's turnover for the year by class of business is as follows:

	2020 £ 000	2019 £ 000
Aeronautical income	63,179	65,463
Concession income	66,843	67,931
Property income and recharges	29,563	27,306
	<u>159,585</u>	<u>160,700</u>

All turnover is generated in the United Kingdom.

5 Exceptional administrative expenses

	2020 £ 000	2019 £ 000
Reorganisation or restructuring	105	195
GMP Equalisation	-	958
Master plan	-	586
HS2 mover	-	235
	<u>105</u>	<u>1,974</u>

During the year £0.105 million (2019: £0.195 million) restructuring costs were incurred. During the prior year pension GMP equalisation cost of £0.958 million, master plan review costs of £0.586 million and £0.235 million HS2 mover safeguarding costs were incurred. Included within taxation on profit on ordinary activities is tax on exceptional items at the current UK tax rate of 19% (2019: 19%) amounting to £0.020 million (2019: £0.193 million).

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

6 Operating profit

Arrived at after charging/(crediting):

	2020	2019
	£ 000	£ 000
Depreciation expense (note 14)	26,796	25,854
Capital grant release	(10)	(10)
Government grant release (note 7)	(218)	-
Decrease in fair value of investment property (note 15)	1,045	4
Operating lease expense - property	687	688
Operating lease expense - plant and machinery	70	90
Profit on disposal of tangible assets	(25)	(49)
Impairment of trade receivables	672	426

7 Government grants

The Group received a grant of £1.375 million from the Department of Transport for the deployment and operation of ultra-low emission buses, including any supporting infrastructure. The grant is conditional on quarterly data submissions of vehicle and infrastructure performance information and is being amortised to the Income Statement over the life of the assets. The group have also received the final instalment of £1.353 million grant from the European Commission Innovation and Networks Executive Agency for collaborative decision making, with the grant being amortised to the Income Statement over the life of the assets.

	2020	2019
	£ 000	£ 000
Opening balance at 1 April	583	583
Utilised	(219)	-
Additions	2,145	-
Closing balance at 31 March	<u>2,509</u>	<u>583</u>

8 Auditors' remuneration

	2020	2019
	£ 000	£ 000
Audit fee payable to the company's auditors	<u>65</u>	<u>65</u>

9 Staff costs

The aggregate payroll costs were as follows:

	2020	2019
	£ 000	£ 000
Wages and salaries	15,050	14,468
Social security costs	1,572	1,454
Other pension costs, defined contribution scheme (note 23)	796	544
Other pension costs, defined benefit scheme (note 23)	902	1,708
	<u>18,320</u>	<u>18,174</u>

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

9 Staff costs (continued)

The aggregate payroll costs include exceptional items of £0.105 million (2019: £1.153 million).

The average monthly number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2020	2019
	No.	No.
Administration and support	187	180
Security, Terminal and Operations	195	195
Engineering	52	52
	434	427

10 Directors' emoluments

The directors' emoluments for the year was as follows:

	2020	2019
	£ 000	£ 000
Emoluments	103	85

No directors exercised share options or received benefits under long-term incentive schemes or accrued post-employment benefits under defined benefits plan or as a member of defined contribution pension scheme (2019: nil).

Two directors are remunerated by the ultimate parent company (2019: two), Birmingham Airport Holdings Limited, and the costs are not recharged. Please see disclosure of the aggregated key management personnel where these costs are disclosed.

11 Interest receivable and similar income

	2020	2019
	£ 000	£ 000
Interest income from group companies	1,318	294
Interest income on bank deposits	1,019	374
	2,337	668

12 Interest payable and similar expenses

	2020	2019
	£ 000	£ 000
Interest on obligations under finance leases and hire purchase contracts	837	817
Intercompany interest payable	5,964	5,247
Other interest payable	1,574	1,627
Pension scheme net finance cost (note 23)	185	177
Less: Capitalised interest	(764)	(579)
	7,796	7,289

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

13 Tax on profit

(a) Tax charged in the income statement

	2020	2019
	£ 000	£ 000
Current taxation		
UK corporation tax	9,446	9,389
UK corporation tax adjustment to prior years	(76)	(193)
	<u>9,370</u>	<u>9,196</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(108)	(506)
Arising from changes in tax rates and laws	328	53
Deferred tax adjustment to prior years	(208)	(472)
	<u>12</u>	<u>(925)</u>
Tax on profit	<u><u>9,382</u></u>	<u><u>8,271</u></u>

(b) Tax charged in other comprehensive income

	2020	2019
	£ 000	£ 000
Arising from origination and reversal of timing difference	1,309	3,008
Arising from changes in tax rates and laws	2,403	(317)
	<u><u>3,712</u></u>	<u><u>2,691</u></u>

(c) Reconciliation of tax charge

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019: higher than the standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

	2020	2019
	£ 000	£ 000
Profit before tax	<u>39,862</u>	<u>43,231</u>
Corporation tax at standard rate	7,574	8,214
Effect of expense not deductible in determining taxable profit	2,255	1,223
Effect of income exempt from taxation	(491)	(554)
Deferred tax credit relating to changes in tax rates or laws	328	53
Adjustment in respect of prior years	(284)	(665)
Total tax charge	<u><u>9,382</u></u>	<u><u>8,271</u></u>

(d) Tax rate changes

In his recent budget the Chancellor of the Exchequer reversed the previously enacted decrease in the rate of UK corporation tax from 19% to 17% from 1 April 2020, with the tax rate remaining at 19%. This has been substantively enacted at the balance sheet date and is reflected in the company's financial statements.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

14 Tangible assets

	Land and buildings £ 000	Leasehold land and buildings £ 000	Infrastructure £ 000	Plant and machinery £ 000	Assets in the course of construction £ 000	Total £ 000
Cost or valuation						
At 1 April 2019	289,507	200	105,431	179,876	30,862	605,876
Additions	-	-	-	-	37,286	37,286
Capitalised interest	-	-	-	-	764	764
Disposals	-	-	-	(871)	-	(871)
Transfers	1,178	-	5,254	5,987	(12,419)	-
Revaluations	(2,162)	-	-	-	-	(2,162)
At 31 March 2020	288,523	200	110,685	184,992	56,493	640,893
Accumulated depreciation						
At 1 April 2019	2,537	-	2,156	136,286	-	140,979
Charge for the year	11,072	-	8,057	7,667	-	26,796
Eliminated on disposal	-	-	-	(871)	-	(871)
At 31 March 2020	13,609	-	10,213	143,082	-	166,904
Carrying amount						
At 31 March 2020	274,914	200	100,472	41,910	56,493	473,989
At 31 March 2019	286,970	200	103,275	43,590	30,862	464,897

Included within the net book value of land and buildings above is £274.914 million (2019: £286.970 million) in respect of freehold land and buildings and £0.200 million (2019: £0.200 million) in respect of long leasehold land and buildings. Included in land and buildings is land at a value of £92.076 million (2019: £94.238 million) which is not depreciated.

Birmingham Airport Limited entered into a lease/leaseback arrangement with the West Midlands District Councils which covers all the land, buildings and infrastructure of the airport site. Details of the transaction are included in note 29. The company entered into a finance lease arrangement in 2015 to acquire infrastructure and plant and machinery assets for the runway extension and paid a lease premium of £30.315 million.

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

14 Tangible assets (continued)

Revaluation

Following advice from external expert support, the Directors have on consideration revalued certain operational assets whose fair value is based on income, due to the latest changes in the market value at 31 March 2020. This revaluation has resulted in a revaluation reduction of £2.162 million and was taken to the revaluation reserve (net of £0.411 million deferred tax). The company's operational property assets which were valued in 2016, were revalued on 31 March 2019 by an independent valuer. The valuations were undertaken by Knight Frank LLP, in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors and with FRS 102. Due to the specialist nature of the airport's property assets, the fair value is based on income and the depreciated replacement cost methodology for land, buildings and infrastructure assets. These revaluations were incorporated into the financial statements and the resulting revaluation surplus of £19.467 million, net of deferred tax, was taken to the revaluation reserve.

Historical cost

On a historical cost basis the gross cost of land and buildings assets would have been included as £314.629 million (2019: £313.452 million) and the net book value would have been £161.992 million (2019: £168.391 million). The gross cost of infrastructure assets would have been £197.064 million (2019: £191.809 million) and the net book value would have been £83.661 million (2019: £83.457 million).

Capitalised interest

Within Capitalised Interest are capitalised borrowing costs of £0.764 million (2019: £0.579million). The capitalisation rate used to determine the amount of finance costs capitalised during the year was 6.5% (2019: 6.5%).

15 Investment property

	2020
	£ 000
At 1 April 2019	5,320
Fair value adjustments	<u>(1,045)</u>
At 31 March 2020	<u><u>4,275</u></u>

Investment properties held by Birmingham Airport Limited have been revalued at 31 March 2020, by Knight Frank LLP, undertaken in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors and with FRS 102. The valuation identified a reduction of £1.045 million (2019: £0.004 million reduction) which has been recognised in the income statement.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

16 Investments

	2020 £ 000	2019 £ 000
Investments in subsidiaries	15,494	15,494

Details of subsidiaries

Details of the investments that the company holds are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2020	2019
Subsidiary undertakings				
First Castle Developments Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Developments Limited	England	Ordinary Shares	100%	100%
BHX Fire & Rescue Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Air Traffic Limited	England	Ordinary Shares	100%	100%
Birmingham Airport Services Limited	England	Ordinary Shares	100%	100%
BHX (Scotland) Limited	Scotland	Ordinary Shares	100%	100%
BHX Limited Partnership	Scotland	Capital Contribution	100%	100%
Associates				
Euro-hub (Birmingham) Limited	England	Ordinary Shares	25%	25%
Euro-hub (Birmingham) Limited	England	Preference Shares	30%	30%

The registered address of these investments are the same as the parent company with the exception of BHX (Scotland) Limited and BHX Limited Partnership whose registered address is c/o Eversheds LLP, 3 - 5 Melville Street, Edinburgh, EH3 7PE.

The principal activity of First Castle Developments Limited is Investment Property Holding Company.

The principal activity of Birmingham Airport Developments Limited is Site Development.

The principal activity of BHX Fire & Rescue Limited is Airport Rescue and Fire Fighting Services.

The principal activity of Birmingham Airport Air Traffic Limited is Air Traffic Services.

The principal activity of Birmingham Airport Services Limited is Airport Service Provider.

The principal activity of BHX (Scotland) Limited is Management Company.

The principal activity of BHX Limited Partnership is Property Holding and Investment Company.

The principal activity of Euro-hub (Birmingham) Limited is Property Holding Company.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

17 Inventories

	2020	2019
	£ 000	£ 000
Raw materials and consumables	514	522

No provision for impairment of stocks has been provided for in the year (2019: £nil).

There is no material difference between replacement cost of inventory and its carrying amount.

18 Debtors

	2020	2019
	£ 000	£ 000
Trade debtors	13,055	12,058
Amounts owed by group undertakings	43,162	3,623
Other debtors	192	223
Prepayments and accrued income	13,686	12,979
Debtors: amounts falling due after more than one year	4,845	5,533
	<u>74,940</u>	<u>34,416</u>

Trade debtors are stated after provisions for impairment of £2.083 million (2019: £1.411 million).

Debtors falling due after more than one year relates to the prepaid Control Tower lease premium £4.845 million (2019: £5.533 million).

The amounts owed by group undertakings are unsecured and there are no formal arrangements for the repayment of these amounts and consequently these amounts are strictly repayable on demand. The interest receivable is based on a rate composed of the current interest rate payable on the group's bond plus 0.5 per cent.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

19 Creditors

	2020	2019
	£ 000	£ 000
Amounts falling due within one year		
Trade creditors	2,805	5,070
Amounts owed to group undertakings	386,675	243,116
Loans and borrowings	1,247	1,084
Other taxation and social security	687	380
Corporation tax	537	5,681
Accruals and deferred income	60,744	57,388
	<u>452,695</u>	<u>312,719</u>
Amounts falling due after more than one year		
Loans and borrowings	32,056	33,304
Accruals and deferred income	2,882	632
	<u>34,938</u>	<u>33,936</u>

The amounts owed to group undertakings are unsecured and there are no formal arrangements for the repayment of the amounts and consequently this amount is strictly repayable on demand. The interest payable is based on a rate composed of the current interest rate payable on the group's bond plus 0.5 per cent. Details of loans and borrowings are included at note 20 and payment obligations are included at note 21.

20 Loans and borrowings

	2020	2019
	£ 000	£ 000
Current loans and borrowings		
Finance lease liabilities	<u>1,247</u>	<u>1,084</u>
	2020	2019
	£ 000	£ 000
Non-current loans and borrowings		
Finance lease liabilities	27,324	28,572
Net premium arising on lease and leaseback	<u>4,732</u>	<u>4,732</u>
	<u>32,056</u>	<u>33,304</u>

21 Obligations under leases and hire purchase contracts

Finance leases

The total of future minimum lease payments is as follows:

	2020	2019
	£ 000	£ 000
Not later than one year	3,622	3,494
Later than one year and not later than five years	15,639	15,082
Later than five years	<u>132,811</u>	<u>134,269</u>
Total gross payments	152,072	152,845
Less: finance charges	<u>(118,769)</u>	<u>(118,458)</u>
Carrying amount of liability	<u>33,303</u>	<u>34,387</u>

Within the above, certain leases include contingent rent clauses, see note 29 for further information.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

22 Provisions for liabilities

	Deferred tax £ 000	Other provisions £ 000	Total £ 000
At 1 April 2019	23,420	1,690	25,110
Increase in existing provisions	12	70	82
Provisions used	-	(70)	(70)
Additions through statement of comprehensive income	3,712	-	3,712
At 31 March 2020	27,144	1,690	28,834

The company is fully committed to a positive environmental policy including the provision of a defined noise insulation scheme, financial penalties to support night flying restrictions and payments under the Land Compensation Act 1973. Provisions are made in line with foreseen liabilities and a £1.687 million provision was provided in the prior year for addressing potential LCA claims. This is intended to cover the costs of any legal, property and administration expertise to process and defend any claims, as well as any actual liabilities that may be due. With regards to the noise insulation scheme, the future liability for the next twelve months is estimated at £0.200 million (2019: £0.200 million) and will be charged in the year to which it relates.

Deferred tax

Deferred tax assets and liabilities

2020	Asset £ 000	Liability £ 000
Capital allowances in excess of depreciation	-	6,411
Other timing differences	839	-
Revaluation of land, buildings and infrastructure	-	24,710
Revaluation of investment property	-	679
Post-employment benefits	3,817	-
	4,656	31,800
2019	Asset £ 000	Liability £ 000
Capital allowances in excess of depreciation	-	4,878
Other timing differences	283	-
Revaluation of land, buildings and infrastructure	-	23,497
Revaluation of investment property	-	785
Post-employment benefits	5,457	-
	5,740	29,160

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 *(continued)*

23 Post employment benefits

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £0.796 million (2019: £0.544 million).

Defined benefit pension schemes

Birmingham Airport Limited Pension Scheme

The company operates a defined benefit pension arrangement called the Birmingham Airport Limited Pension Scheme (the scheme). The scheme provides benefits on a defined benefit basis. The following disclosures relate only to the scheme and to unfunded benefits supported by the company.

The most recent full actuarial valuation was carried out with an effective date of 31 October 2018 using the projected unit method. Members pay 5.5 per cent of pensionable earnings, and the group pays contributions so that overall contributions of 18.4 per cent of pensionable earnings were paid up to January 2020, taking account of salary sacrifice adjustments. Scheme expenses, other than life insurance premiums, are payable by the group.

On 28 March 2013, Birmingham Airport Limited agreed an asset backed funding arrangement with the trustees of the pension scheme to help address the pension funding deficit. In connection with the arrangement, property with a fair value of £33.3 million was leased and subsequently leased back to a limited partnership established by the group. The partnership is controlled by the group. On 28 March 2013, Birmingham Airport Limited made a special contribution to the pension scheme of £25.3 million and on the same day the pension scheme used this contribution to acquire an interest in the partnership for its fair value of £25.3 million. The interest entitles the pension scheme to a distribution from the income of the partnership of £2 million per annum, increasing by 4 per cent per annum for fifteen years, with distribution payments made quarterly.

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2020	2019
	%	%
Discount rate	2.40	2.50
Future salary increases	2.65	3.25
Future pension increases (RPI)	2.90	3.50
Future pension increases (CPI)	1.90	2.50

Post retirement mortality assumptions

	2020	2019
	Years	Years
Current UK pensioners at retirement age - male	22.00	22.00
Current UK pensioners at retirement age - female	24.00	24.00
Future UK pensioners at retirement age - male	24.00	24.00
Future UK pensioners at retirement age - female	26.00	26.00

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2020	2019
	£ 000	£ 000
Fair value of scheme assets	172,916	178,192
Present value of defined benefit obligation	(193,006)	(210,295)
Defined benefit pension scheme deficit	(20,090)	(32,103)

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

23 Post employment benefits (continued)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2020	2019
	£ 000	£ 000
Present value at the start of the year	(210,295)	(194,876)
Current service cost	(1,669)	(1,576)
Past service cost	-	(958)
Interest cost	(5,208)	(5,235)
Actuarial gains/(losses)	18,490	(12,203)
Benefits paid	5,762	4,648
Contributions by scheme participants	(86)	(95)
Present value at end of year	<u>(193,006)</u>	<u>(210,295)</u>

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2020	2019
	£ 000	£ 000
Fair value at the start of the year	178,192	167,490
Interest income	5,023	5,058
Actuarial (losses)/gain	(9,439)	8,570
Employer contributions	4,816	1,627
Contributions by scheme participants	86	95
Benefits paid	(5,762)	(4,648)
Fair value at end of year	<u>172,916</u>	<u>178,192</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2020	2019
	£ 000	£ 000
Cash and cash equivalents	4,205	914
Other assets	168,711	177,278
	<u>172,916</u>	<u>178,192</u>

Other assets includes diversified growth funds, which are predominately made up of equity and debt instruments, and the asset backed funding arrangement.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

23 Post employment benefits (continued)

Return on scheme assets

	2020 £ 000	2019 £ 000
Return on scheme assets	(4,416)	13,628

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Total cost recognised as an expense totalled £1.669 million (2019: £1.576million) for current service cost and £0.143 million (2019: £0.177 million) for interest cost. Included in the service cost is £0.185 million (2019: £0.211 million) relating to salary sacrificed and £0.624 million (2019: £0.615 million) for other group entities. On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. This resulted in a prior year charge of £0.958 million to the Income Statement and has been recognised within exceptional administrative expenses.

24 Share capital

Allotted, called up and fully paid shares

	No. 000	2020 £ 000	No. 000	2019 £ 000
Ordinary Shares of £0.001 each	142,112	142	142,112	142

25 Revaluation reserve

The revaluation reserve was created in March 2016 when land, buildings and infrastructure assets were revalued. These assets have been revalued in March 2019 with details included in note 14. Certain operational assets whose fair value is based on income have been revalued in March 2020 with details included in note 14. The revaluation reserve transfer relating to the additional depreciation incurred in the income statement as a result of this revaluation was £1.046 million (2019: £0.989 million). The substantively enacted tax rate changed in March 2020 to 19% (2019: 17%), resulting in a £1.090 million transfer from revaluation reserve to increase the deferred tax provision (2019: £ nil).

26 Dividends

	2020 £ 000	2019 £ 000
Final dividend of £0.1162 (2019 - £0.1195) per ordinary share	16,512	16,987
Interim dividend of £0.1063 (2019 - £0.1007) per ordinary share	15,105	14,316
	31,617	31,303

The directors are proposing that no final dividend is paid for 2019/20 (2019: £0.11619 per share, totalling 16.512 million). This dividend has not been accrued in the Statement of Financial Position.

27 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £8.667 million (2019: £5.864 million).

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

27 Commitments (continued)

Operating leases

The total of future minimum lease payments is as follows:

	2020 £ 000	2019 £ 000
Not later than one year	80	93
Later than one year and not later than five years	55	103
	<u>135</u>	<u>196</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £0.090 million (2019: £0.070 million).

Operating lease arrangements where the company is the lessor

The future minimum rental receivable under non-cancelling operating leases are as follows:

	2020 £ 000	2019 £ 000
Not later than one year	959	891
Later than one year and not later than five years	4,080	3,957
Later than five years	41,127	41,302
	<u>46,166</u>	<u>46,150</u>

These non-cancellable leases have remaining terms of between two and ninety three years. All leases include a provision for upward rent reviews in accordance with specific lease terms at prevailing market conditions.

28 Contingent liabilities

On 13 February 2001, the company, along with other group members of Birmingham Airport Holdings Limited, provided Guarantees in support of a £105 million Corporate Bond issued by Birmingham Airport (Finance) PLC. The bond is for a period of 20 years maturing on the 22 February 2021 and carries a fixed interest rate of 6.25 per cent per annum.

On 3 December 2013, the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £75 million private placement senior notes issued by Birmingham Airport (Finance) PLC. Series A senior notes of £30 million are for a period of ten years maturing 3 December 2023 and carries a fixed interest rate of 4.472 per cent per annum. Series B senior notes of £45 million are for a period of fifteen years maturing 3 December 2028 and carries a fixed interest rate of 4.557 per cent per annum.

On 30 March 2016, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76 million private placement senior notes issued by Birmingham Airport (Finance) PLC on 30 March 2016. The senior notes are for a period of 25 years maturing 30 March 2041 and carry a fixed interest rate of 3.8 per cent per annum.

On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90 million private placement senior notes issued by Birmingham Airport (Finance) PLC on 24 January 2019. The senior notes are for a period of 30 years maturing 24 January 2049 and carry a fixed interest rate of 3.21 per cent per annum.

On 23 January 2020, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £85 million private placement senior notes issued by Birmingham Airport (Finance) PLC on 24 January 2020. The senior notes are for a period of 30 years maturing 24 January 2050 and carry a fixed interest rate of 2.44 per cent per annum.

On 16 January 2019, the company along with other group members of Birmingham Airport Holdings Limited, provided a guarantees to Royal Bank of Scotland PLC in support of a £25 million banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by 2 further 12 month periods. At the date of signing these financial statements, the total amount of the facility has been drawn down.

Birmingham Airport Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (*continued*)

29 Related party transactions

The following entities conducted transactions with Birmingham Airport Limited during the year ended 31 March 2020, and were considered related parties as defined by FRS 102, related party transactions. The company has taken advantage of the exemption under paragraph 33.1A of FRS 102 from disclosing transactions with group members, on the grounds that it is a wholly owned subsidiary of a group headed by Birmingham Airport Holdings Limited, whose financial statements are publicly available.

West Midlands District Councils

Birmingham City Council, Coventry City Council, Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Solihull Metropolitan Borough Council, Walsall Metropolitan Borough Council and Wolverhampton City Council ("The Districts") are shareholders in the parent undertaking.

In 1995, Birmingham Airport Limited entered into an arm's length lease arrangement with Solihull Metropolitan Borough Council on behalf of The Districts, all of which were shareholders in the company at that time. Under such arrangements, the company granted a 999 year lease over land and buildings situated at Birmingham Airport in exchange for a total fair value premium of £100 million and a peppercorn rent. At the same time the shareholders granted Birmingham Airport Limited a 150 year lease over the same property for a total fair value premium of £96.5 million.

The net premium arising as adjusted for associated stamp duty and legal costs has been treated as a finance lease in the financial statements of the company and is disclosed in note 20. Under the lease arrangement, the company pays a basic rent of £0.6 million per annum from 1 April 2007 subsequently index linked each year for the remaining lease period. In addition, a turnover based rent is payable calculated as 0.4% of turnover less the basic rent in the period. The total amount payable in the year was £0.837 million (2019: £0.817 million). The amount at the end of the year was £4.732 million (2019: £4.732 million), all of which is due after more than one year.

In February 2002 the company completed a 150 year lease agreement with Birmingham City Council for land adjacent to the airport site. A lease premium of £0.2 million was paid with a peppercorn rent for the remaining lease term along with costs of £2,000. The lease payments have been treated as a finance lease in the financial statements of the group. The amount due at the end of the year was £nil (2019: £nil).

Solihull Metropolitan Borough Council

Solihull Metropolitan Borough Council is the local authority for the airport and transacts with the Company in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arm's length basis at a full commercial rate.

Birmingham City Council

In support of the A45 transport corridor improvement scheme the airport company has contributing circa £7 million as part of the cost of the realignment of the improved A45 corridor, there was an accrued creditor of £2.567 million relating to this transaction (2019: £2.567million).

30 Parent and ultimate parent undertaking

The company's immediate parent is Birmingham Airport Operations Limited, incorporated in England.

The ultimate parent is Birmingham Airport Holdings Limited, incorporated in England.

The smallest and largest parent entity producing publicly available financial statements is Birmingham Airport Holdings Limited. These financial statements are available upon request from Diamond House, Birmingham Airport, Birmingham, West Midlands, B26 3QJ.

Birmingham Airport Limited
Notes to the Financial Statements for the Year Ended 31 March 2020 (*continued*)

31 Non adjusting events after the financial period

Subsequent to the balance sheet date, the Covid-19 pandemic and continued related Government restrictions on travel has had a significant impact on trading for the Group and Company. A number of measures have been taken to support the Group and Company through this time, including use of the Government Coronavirus Job Retention Scheme (CJRS) for almost 600 staff and claiming £2.9 million between April and June, with the Group and Company continuing to utilise the CJRS support through to October. The Group and Company have proactively reduced operating costs during the pandemic and subject to a consultation period, has announced that up to 250 jobs are at risk of redundancy. The Directors have also taken steps to secure liquidity by bringing forward the issuance of £45 million of private placement notes from December 2020 to May 2020. The funds were received on 21 May 2020 and the issuance is for a period of 30 years and 7 months maturing 16 December 2050 and carry a fixed interest rate of 2.49 per cent per annum.